

Realty Stock Review

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MARKET STRATEGY: FIRST HALF WAS BETTER THAN MOST THINK AS EPS SURPRISES ARE FEW

The market has suddenly come to believe that the economy is headed south, and that sluggish earnings are ahead for many industries in the second half and maybe into 1987. No groups are more suspect on Wall Street than homebuilding and manufactured housing firms. We see much of the pessimism as a bum rap.

Homebuilders: Suddenly no one wants to own homebuilding stocks. Kaufman & Broad wound up selling only 2.0 mil. shares of its subsidiary Kaufman & Broad Homes Corp. this week. A snafu when Congress let the popular FHA insurance programs lapse for a time in June hurt second quarter mortgage processing, resulting in lower closings for some builders. Moreover, organized builders in the Nat. Assn. of Home Builders, eager to wring some concessions from Congress' tax writers, are saying publicly that housing peaked in the spring. A recent upward blip in mortgage rates has hurt, although rates are low historically.

Manufactured housing companies have seen softer order books and deliveries as weakness in oil patch states (historically big buyers of mobile homes) has hurt recent results. Fleetwood housing sales fell about 8% in the July qtr. but Redman found strength in the North.

REITs face a different picture as a few earnings and dividend surprises have been generalized into an industry collapse -- keyed in part to a media blitz saying the new tax law will punish real estate. Part of the problem for REITs, especially mortgage lenders, is that return on all real estate investments has fallen by 1%-2% or more, and reinvestment at today's market rates cuts EPS and dividends.

Builder Earnings and Backlogs: We tallied EPS for the latest (May or June) quarter and six months' for 26 builder/developers and found slightly over half (14 companies) had EPS gains for the latest quarter. One (Writer) was unchanged, while eight had EPS declines and three had losses.

So much for history. Traditionally builders live off their backlog, so we counted units for 12 major multi-city builders. June (or May) backlog was up an average 37% for these biggies, who could muster only a 10% gain in home deliveries for the first half of 1986. Closings were up 15% in the latest quarter however, suggesting that builders had a good quarter in face of the FHA processing snafus. Our tallies of builder EPS and unit closings and backlog are on Page 2. Following them are brief reviews of several builders with recent notable activities.

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UNIT CLOSINGS & BACKLOG

Co.-Period	DU 6 Mo.	% Chg.	Backlog Latest	% Chg.
Centex-3 Mo.Jn.1,518		+ 7	2,649	+15
Gemcraft-June..1,941		+43	1,818	+53
Gen.Dev.-June.. 652		+19%	702	-45
Gen.Hm-9 Mo.Jn.3,909		+23	1,648	+27
Kauf. & Bd.-May.1,442		+42	1,938	+46
Lennar-May.....1,204		- 4	1,990	+43
MDC Hld.-June..2,054		+87	2,657	+266
Pulte Hm.-June.3,962		-13	3,394	+52
Ryan Hm.-June..3,894		- 6	4,859	+30
Ryland Gr-June.3,592		+41	4,437	+46
Std.-Pacf-June. 701		- 4	1,054	+35
UDC-Univ.June.. 676		+31	752	+37
U.S. Home-June.3,978		-14	3,390	+14
TOTALS-13 Co.29,523		+10%	31,284	+37%

a--Closings for 6 mon. except for Centex (3 mon.) and Genl. Homes (9 mon.)

BRIEF RANKING REVIEWS: MAJOR BUILDERS KEEP SALES MOMENTUM BUT A FEW STUMBLE

The table at right makes abundantly clear that results can vary widely based upon a company's geographic spread and other corporate activities. Results in the latest quarter among majors ranged all the way from Lennar's 40% EPS gain in May to Pulte's 57% fall and U.S. Home's writeoffs (RSR, July 11).

General Development Corp. rises to B Rank. EPS/Dividends - B: GDV (\$17.63-NYSE), earned \$3.01/sh. in 1985, down 1% on a pro forma basis following its Sept. 1985 return to public markets (RSR, Sept. 13, 1985). So far 1986 is generally good. The June quarter saw both house and lot sales up 16% and 15% respectively. New house orders were off 44% however, blamed on customer expectations of lower mortgage rates. June qtr. EPS fell 7% to 64¢ sh. on an 8% increase in average shares after GDV called for redemption (and thus forced conversion of) its outstanding warrants. Fully diluted EPS for the six months of \$1.36 is up 11.7% and we see about \$3.25/sh. in 1986.

Financial Measures - B: Leverage is still high with debt of \$302 mil. at 2.6 times \$115 mil. equity; debt is being reduced via land and income property sales.

SUMMARY OF BUILDER EARNINGS

Co.-EPS To	6 Mo.	% Chg.	EPS 3 Mo.	% Chg.
c-Centex-Mar/Jn.	\$2.62	+19%	0.76	+10%
Gen.Dev.-June...	1.36	+13	0.64	- 7
b-Gen.Home-June.	0.97	+471	0.36	+24
Lennar-May.....	0.60	-12	0.40	+43
MDC Hldg.-June..	0.84	+36	0.41	+32
Pulte Hm.-June..	0.14	-60	0.10	-57
Ryan Hm.-June...	1.64	+ 5	1.10	+ 6
Ryland Gr.-June.	1.20	+58	0.80	+24
Std.Pacif.-June.	1.01	+63	0.52	+37
Toll Bros.-Apr..	0.40	+263	NA	NA
U.S.Home-June...d	2.41	NM	d2.36	NM
Other builders				
Amrep-Apr. yr..	2.15	+40	NA	NA
Deltona-June...	d0.06	NM	0.10	-71
Dev.Cp.Am.-June	0.54	+80	0.53	+279
e-Fairfield-May	0.83	-44	d0.21	NM
Gemcraft-June..	0.33	+313	0.16	-53
e-Hovnanian-May	1.15a	+76	0.28a	+147
c-Intl.Am.-June	0.51f	+168	0.06f	-40
c-Leis.Tech-June	0.31	-62	0.15	+150
Levitt-June....	0.07	-65	0.04	-64
NVHomes-June...	0.28	NM	0.28	NM
Newhall Ld-June	0.86	+56	0.50	+56
Oriole Hm.-June	0.22	NM	0.11	+10
c-Patten-June..	1.40	+198	0.34	+31
Princevil-May..	NA	NA	0.07	+75
Starrett-June..	0.19	-37	0.11	-35
Webb(Del)-June.	1.11	+ 2	0.69	-15
Writer-June....	0.12	-20	0.06	0
Manufactured housing				
Claytn-Jun yr/Q.	0.80	+14	0.25	- 7
e-Champion-May.	d0.08	NM	0.01	-50
Fleetwood-Apr.yr	1.69	-26	NA	NA
Skyline-May yr.	0.93	+31	NA	NA
c-Redman-June..	0.49	- 6	0.07	-71
Zimmer-June....	d0.22	NM	d0.14	NM

a-Adjusted for stock splits.

b-9 mo. & 3 mo. ending June.

c-Yr. ended Mar. & 3 mo. June.

d-Deficit; no meaningful comparison.

e-Yr. ended Feb. & 3 mo. May.

f-Pro forma for acquisitions.

NA-Not available.

Exposure - C: The stock has fallen in recent trading but GDV remains one of Florida's major land holders, whose utility systems are among the largest and most valuable in the state. It also has diversified operations in home-building, investment property building and holding, and real estate and insu-

rance agency. We still see it as an strong Florida land play now that it's free of strings to City Investing.

Leisure & Technology Corp (\$5.38-ASE) continues at C Rank. EPS/Dividends - C: LVX earned 31¢ in its March 1986 fiscal year, down 62%. Land sales of \$13.3 mil. generated \$6.7 mil. gross margin; without such sales, LVX would have reported a loss. The June quarter continued this pattern as land sales generated 57¢ share gross margin; after expenses, EPS of 15¢ was up 150%.

Adult community developer LVX delivered 606 homes in FY 1986, down 35%, because of delays in getting foundations poured for a new model line at its Lakewood, N.J. community. The previous year benefitted from closings at an Ocean-side, Cal. project. Sales in its adult communities rose 7% in the June quarter and backlog at July 31 of \$68.3 mil. is up 141%, reflecting strong reception of the new Lakewood product line. LVX has major communities in California, New York, and also builds in Florida. LVX holds significant land of 9,600 acres, including 3,300 under development and 6,300 for future development, of which 89% is in N.J.

Financial Measures - C: LVX has proposed an offering of straight debt and convertible preferred stock to repay short-term debt and provide some funds for development of some of its considerable land holdings. LVX historically has built good product in good locations but tight cash flow has forced it to sell some land assets to repay debt, limiting longer term potential.

Exposure - C: Completion of the pending offering will do much to stabilize LVX's finances and provide a future earnings base.

MDC Holdings (\$14.50-NYSE), a Denver based homebuilder, keeps A Rank. EPS/Dividends - A: MDC netted \$1.74/sh. in 1985, fifth up year running. MDC reported six months' EPS of 84¢ diluted, up 35%. The June qtr. saw a 32% EPS increase to 41¢ sh. on an 81% revenue increase. We now see EPS of about \$1.75 or more for 1986.

MDC closed 1,218 home sales in the June qtr., up 94%, and backlog rose 266%

to 2,657 units. All this reflects the January acquisition of Wood Bros. Homes on a purchase accounting basis (i.e., Wood Bros. sales aren't included in year-ago comparisons). Wood was acquired for cash below its book value, so its sales were profitable from day one. MDC now builds in Color., Texas, Ariz., Fla., and the Washington area.

Financial Measures - A: MDC raised over \$450 mil. via a debenture sale in the June quarter; funds will be used for acquisitions and expansions.

Exposure - A: Management here is quite aggressive, both in raising new capital and in making acquisitions. Long term record in acquisitions has been good, along with internal growth.

Standard Pacific Corp. (\$26.63-NYSE) rises to A Rank with continued earnings progress. EPS/Dividends - A: SPF earned \$1.68 in 1985, up 46%, on a 36% revenue gain. It followed with an excellent June quarter and half. Six month EPS of \$1.01 is up 63% and we now see about \$2.25/sh. for 1986. June qtr. EPS rose 44% to 52¢ on a 17% rise in home revenues.

SPF operates mainly in the hot California home markets, including San Diego, Los-Angeles-Orange County, and northern Calif. SPF delivered 1,689 homes in 1985 directly and via joint ventures; a good first half and 35% rise in mid-year backlog point to a strong second half. About 15% of volume comes from non-California markets, with Dallas-Houston the biggest. Average house price topped \$160,000 in the first half and may hit \$165,000 by year-end.

Financial Measures - A: Debt of \$103 mil. about equals shareholders' equity of \$102 mil.

Exposure - A: Reasonable leverage limits exposure. The major play is two-fold: continuing homebuilding on its considerable California land base, and the potential for additional dividend income if SPF succeeds in converting into a master limited partnership (as have UDC-Universal and Newhall Land & Farming already). SPF is near filing its L.P. proposal with the S.E.C. looking to an Oct. shareholder meeting. If conversion happens, it would save corporate taxes for shareholder payout.

UDC-Universal (\$21.13-NYSE after a recent 3-for-2 split) rises to B Rank. This Chicago based homebuilder operates as a limited partnership. EPS/Dividends - A: UDC netted \$2.53/sh. adjusted in 1985 and Mar. qtr. EPS of 36¢ rose 64%. June qtr. EPS aren't announced at this writing but an increase is expected. As an LP, UDC intends paying about 70% of pretax income to shareholders as dividends, hence payout may vary from quarter to quarter.

UDC builds for the retirement and move-up markets. It has seven retirement communities near Phoenix, San Diego, northern Calif., and Palm Beach, Fla. It also builds in 23 family housing tracts mainly in Ariz. and N.C. Deliveries of 1,358 DU were evenly split between retirement and family housing. Deliveries rose 31% thru June and backlog was up 37% (table, p. 2) UDC is unique in financing much land acquisition via separate partnerships which hold for appreciation; thus land owned directly is relatively small and limited to active development land.

Financial Measures - A: UDC has been going to Wall Street for infusions of cash to fuel growth: in June it sold 600,000 shs. at \$35.13 to raise \$20 mil. net, and this week it sold \$30 mil. of 12.25% subordinated notes.

Exposure - B: By raising \$30 mil. this week, UDC stabilized finances. A risk (believed small) is that Congress may sometime limit ability of active businesses to operate in public securities markets as master limited partnerships (MLPs).

Pulte Home Corp. (\$12.25-NYSE) falls to B Rank. EPS/Dividends - B: PHM's excellent long-term record has turned more volatile and unpredictable. PHM earned 90¢ in 1985, up 38% but below the record \$1.78 diluted of 1983. Investors expected a good recovery in 1986 but 6 mon. EPS fell 60% to 14¢ (table, p. 2) for several reasons: a poor hedge on mortgage interest rates in the Mar. qtr., costs of restructuring Ariz. operations, and lower contribution from mortgage finance subsidiaries. Dividend has been maintained.

While unit settlements fell 12.6% to 3,962 in the first half, net new orders rose 13% and backlog soared 52% at the end of June (table, p. 2). The \$332 mil. dollar value of backlog is a company record. PHM builds single family and townhouses in a dozen areas from Puerto Rico to Calif. It was one of the first to sell mortgage backed securities and thus obtain installment tax treatment for its sales, boosting cash flow.

Financial Measures - A: Debt of \$36.6 mil. is a low 0.2 times equity of \$172 mil. or \$6.51/sh. PHM also has deferred \$154.6 mil. of Federal income taxes, equal to \$5.86/sh.

U.S. Home Corp. (\$6.38-NYSE) received and rejected a takeover offer from Pacific Realty Corp., a closely held Dallas apartment builder. Pacific already owns 9.2% of UH and offered to buy remaining shares for \$6.50 cash, \$2.50 face value of a new preferred, and a fraction of a share in the merged company. See RSR, July 11.

COMPARATIVE REALTY STOCK GROUP AVERAGE 08/06/86

GROUP NUMBER & NAME	DIV	NON-DIV	TOTAL	SHARE (000)	BOOK VALUE	ANNUAL DIV	EARN ANN	LAST PRICE	% CHANGE JUL 22	FROM JAN 1	P/E RATIO	ANNUAL YIELD	% PR TO BK	RETURN ON BK	MARKET VAL(000)
1 PROPERTY REITS	40	5	45	5864	11.02	1.19	1.10	15.58	-1.0	8.4	14.2	7.6	41.4	9.9	4316.3
2 PROP & MTG COMB REITS	18	2	20	5182	12.75	1.44	1.61	15.24	-2.2	-0.8	9.5	9.5	19.5	12.6	1704.8
3 MORTGAGE REITS	16	3	19	6002	14.82	1.65	2.14	15.21	-1.2	6.1	7.1	10.9	2.7	14.5	1816.7
4 PARTICIPATING MTG REITS	13	0	13	7855	12.40	1.24	1.17	12.93	-0.1	-0.4	11.1	9.6	4.3	9.4	1399.0
5 MAJOR HOMEBUILDERS	7	4	11	15559	10.63	0.27	1.44	17.76	-8.9	21.5	12.3	1.5	67.0	13.5	2631.0
6 OTHER BLDRS/DEVELOPERS	8	27	35	5759	5.65	0.04	0.18	9.06	-4.9	8.7	50.5	0.4	60.5	3.2	1856.6
7 INCOME PROP BLDR/OWNER	15	10	25	5579	10.62	0.70	0.78	18.17	-1.6	10.7	23.3	3.9	71.1	7.3	2964.6
8 MORTGAGE BANKER/FINANCE	11	4	15	10527	12.89	0.86	0.66	17.83	-3.7	11.1	27.1	4.8	38.4	5.1	4435.7
9 DIVERSIFIED RLTY&HOLDING	12	9	21	22722	12.92	0.27	0.92	18.23	-4.0	15.3	19.9	1.5	41.2	7.1	13867.8
10 RLTY SVCS/SYNDICATORS	3	3	6	8063	5.85	0.05	0.08	8.21	-6.6	-21.2	102.6	0.6	40.2	1.4	357.5
11 MANUFACTURED HOUSING	3	6	9	12975	5.74	0.15	0.30	8.40	-6.6	-10.5	28.3	1.7	46.5	5.2	1033.9
L LIQUIDATING COMPANIES	1	0	1	5954	2.60	0.19	-0.60	4.88	-4.9	-25.0	NC	NC	87.5	NC	29.0
P PREFERRED STOCKS	2	0	2	1923	11.25	0.93	0.00	14.44	0.9	10.5	NC	NC	28.3	NC	56.4
OVERALL AVERAGE			222	8658	10.62	0.78	0.96	14.63	-2.9	7.6	15.2	5.4	37.8	7.4	36469.1
DOW JONES INDUSTRIALS							96.43	1779.53	-0.9	15.1	18.5	3.8			
STANDARD & POOR'S 500							14.53	236.84	-0.6	12.1	16.3	3.5			
DOW JONES UTILITIES							19.40	203.39	-0.9	16.3	10.5	7.3			